



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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DATE: 6 NOVEMBER 2005
MEMO TO: MEMBERS OF THE IPSASB
FROM: PAUL SUTCLIFFE
SUBJECT: **CONVERGENCE OF IPSAS AND STATISTICAL REPORTING
BASES**

ACTION REQUIRED

The Board is asked to:

- **note** the draft report of Working Group 1 (WG1) of the Task Force on Harmonisation of Public Sector Accounting (TFHPSA) – attached to this memorandum.

BACKGROUND

The TFHPSA is Chaired by the IMF. WG1 of the TFHPSA is Chaired by the IPSASB. WG1 has acted as the IPSASB's Project Advisory Panel (PAP) on the project dealing with disclosure of information about the general government sector. A number of members of WG1 also prepared the Research Report on convergence of IPSASs and statistical bases of reporting issued in January 2005.

The TFHPSA has been monitoring progress of the IPSASB on a range of projects, and has been preparing submission to relevant Expert Groups as input to the 2008 review of the System of National Accounts (SNA). The last meeting of the TFHPSA was on October 3-6, 2005 in Washington DC. (The meeting dates were changed from late September which meant that I and others could not attend for the full four days.)

The draft Report of the meeting of WG1 and an action list emanating from the meeting is attached for your information. I anticipate the finalized full meeting report will soon be available and will provide it to members on request.

Paul Sutcliffe
IPSASB TECHNICAL DIRECTOR

From: Pereira, Victoria [VPEREIRA@imf.org]
Sent: Monday, October 24, 2005 10:36 PM
To: psutcliffe@ifac.org
Subject: FW: Task Force on Harmonization of Public Sector Accounting (October 3-6, 2005): Summary of Main Issues and Conclusions

From: Pereira, Victoria
Sent: Friday, October 21, 2005 6:22 PM

On behalf of Ms. Laliberté:

1. Thank you for attending the meeting of the TFHPSA which was held on October 3-6 in Washington, D.C.
2. Attached please find the Summary of the main issues and conclusions. I would be grateful to receive your comments on this Summary **by Friday, October 28.**
3. The next meeting of the TFHPSA will be held in Paris from March 8-10, 2006.
4. Please find below the list of actions (extracted from the minutes for ease of reference):

Action 1. Jeff Golland agreed to coordinate the response of the TFHPSA (individually or collectively) on the update version of the ED 28 before the February deadline.

Action 2A. J. Pitzer and J-P Dupuis will prepare a draft for the January AEG that will present the two approaches in an even-handed manner (as requested in the July AEG meeting), but indicating the preferred choice of the TFHPSA. The draft should be circulated in the task force around November 10 (at the latest), in order to be made available to the ISWGNA on 18 November 2005 as requested.

Action 2B. The present Robinson-Dobbs paper will be modified in collaboration with P. de Rougemont (Eurostat) to present the two main approaches in a more balanced way. This will be a contribution of the TFHPSA to the research on the subject.

Action 3A. Sage de Clerck will submit electronically to the TFHPSA an amended version for review before the end of October.

Action 4: R. Sheperd will seek inputs, by October-end, notably from Brett Kaufmann, Paul Sutcliffe, Ken Warren and Louise Breton from the perspective of financial accounting standards, and, in particular, with regard to the notion of constructive obligations, provisions, contingencies, and the valuation of certain

liabilities using actuarial principles rather than market prices. The amended paper should be finalized by mid-November.

Action 5: The description of HIPC debt forgiveness is to be considered for inclusion as an example of the complexity of debt reorganizations. The TFHPSA should work in conjunction with BOPCOM on the paper to be presented to the AEG.

Action 6: Of the topics covered by team 5, only restructuring agencies may need changes to the SNA. Philippe de Rougemont took the lead to identify the scope of the paper, including issues on how the units and transactions should be treated (see Appendix). The paper could be presented by Ivo Havinga under the Unit paper to be submitted to the AEG.

Action 7: Graham Jenkinson will take the lead on the revised version (of the delineation public/government/private sector).

Action 8: Reimund Mink and Manik Shrestna (BOBCOM) will collaborate on a e-discussion paper on granting and activation of guarantees.

Action 9: The text on taxes will be incorporated in the Chapter.

Action 10: Comments on PPP to be provided to John Pitzer by mid-November.

Action 11: Jean-Pierre Dupuis to inform the Canberra Group of this conclusion (in taxes) and to clarify this point in the chapter.

Kindly copy your replies to Jean-Pierre Dupuis; Paul Sutcliffe, Christian Dimaandal, and Victoria Pereira.

<<DMSDR1S-2671821-v11-TFHPSA October 3-6 minutes.DOC>>

Draft

TASK FORCE ON HARMONIZATION OF PUBLIC SECTOR ACCOUNTING

**Summary of the main issues and conclusions
October 3-6 2005 Meeting in Washington DC**

This fourth meeting of the Task Force on Harmonisation of Public Sector Accounting (TFHPSA), hosted by the IMF (Washington DC, 3-6 October 2006), was attended by approximately 40 persons whose representation was as follows:

- Countries: Australia, Austria, Brazil, Bulgaria, Canada, Denmark, Hungary, Japan, Korea, Mexico, New Zealand, Norway, United Kingdom, United States
- International organizations, IMF, OECD, IPSAS Board, Eurostat, European Central Bank, United Nations, World Bank, CEPAL/ECLAC.

A. Opening remarks by Richard Hemming

- A range of issues were covered, including from privatization, public investments, delineation between current and capital spending, privatization, public investments, delineation between current and capital spending, public investment and expenditure carried out by government through enterprises outside the general government sector, public/private partnership, guarantees.
- These issues need to be portrayed in a consistent and analytically useful framework for statistical and macro-economic analysis. The GFSM 2001 provides such a framework.
- The need is now to have data across countries according to the GFSM 2001 framework.

B. Minutes of the March 2005 meeting

- An overview of the minutes was presented. There were no comments.

C. Working Group I

- Paul Sutcliffe provided an overview of the IPSASB work program,
- noting work program priorities as public sector specific issues; convergence with International Financial Reporting Standards (IFRS); and convergence with statistical bases.
 - highlighting issues of interest to the TFHPSA that included: *Improvements to International Public Sector Accounting Standards* Exposure Draft (ED 26) that proposes updates to 11 IPSASs to converge with the equivalent IFRSs, where appropriate for the public sector; *Non Exchange Revenue* ED that is anticipated to be approved at the next IPSASB meeting; *Social Policy Obligations* ED that is under development; the proposal of a joint project with IASB on PPP; *External Assistance*, ED 24, that needs field testing (and IPSASB would welcome further input);
 - indicating that work program also includes the following EDs that have been approved for issue: ED 27 on *Reporting actual and budget information* and ED 28

on *Disclosure of information about the General Government Sector*, with the general government sector defined to include all activities of the general government as defined in statistical reporting bases and where all the IPSASs will apply except for the IPSAS on consolidation. Final versions of ED 27 and ED 28 will be issued in the next week or so. (please refer to

<http://www.ifac.org/Guidance/EXD-Download.php?EDFID=00153>)

- indicating that the next IPSASB meeting is on Nov. 29, Cape Town S.A. The IPSASB will include a review of the status and profile of IPSASB Observers.

Action: 1. Jeff Golland agreed to coordinate the response of the TFHPSA (individually or collectively) on the update version of the ED 28 before the February deadline.

D. Australia "General Government Sector Financial Reporting" by Brett Kaufman

Presentation:

- The Australian Accounting Standards Board (AASB) issued an ED on this matter in July 2005. It was very controversial since the GGS is not an usual reporting entity for accounting purposes. The AASB took the view that there was a sufficient need from users (government, investment community, debt rating agencies, etc) to justify its status as a reporting entity.
- The AASB adopted the Australian Standards (based on IASB IFRS) that are closer to GFS and are more suitable for application to the GGS than many of the other GAAP. In cases where there were options in the Australian GAAP, those that best aligned with the GFSM 2001 were adopted (e.g., borrowing cost are expensed). Investment is reported at carrying value of the investees as a surrogate of market value. Income, asset and liabilities are classified on a COFOG basis (but difficult to allocate tax revenues on that basis).
- The two frameworks are not fully harmonized as there remain differences (e.g., weapons platforms, interest rate swaps).

Discussion:

- Process in UK mirrors that in Australia, the Financial Reporting Manual (posted on hm-treasury.gov.uk) concerns the central government accounts, and the intent is to extend the reconciliation to the whole of public sector. Others noted that there were no developments on this front yet.
- Narrowing the differences between the two systems could range from full harmonization (as intended in Australia) to a reconciliation where differences are recognized, and reported as bridging tables.

Conclusion:

- The group discussed the extent to which the systems could and should be harmonized over the long term. It was agreed that where appropriate harmonization should be pursued. However, because the two systems had, to

some extent, different objectives (accountability and input to entity specific decision making for accounting, and economic and sector analysis for statistical reporting bases), full harmonization may not be possible or appropriate. It was also noted that while harmonization/ reconciliation will differ at the international and at national levels, the intent of the ongoing convergence program is to ensure that differences that emerge from the development of the two systems are intended, leading to justifiable rather than unintended differences.

Action: none

Dr. Sakurachi, an academic from Japan, presented a paper, and annexed discussions, on the conceptual framework for public sector. The framework includes budget information (not currently in the financial statements of the government), and forecast of macroeconomic indicators, and the annexes include making a bridge between statistics and accounting.

E. Ongoing role of WG I by Lucie Laliberté

Presentation:

- The TFHPSA has two objectives: promoting further harmonization with public accounting standards, and updating statistical guidelines for the public sector in the update of *SNA 93*.
- The internationalization of accounting standards, as embodied in the IPSASB, facilitates the exchange of views between statisticians and accountants in the TFHPSA.
- Unlike the accounting standards, the SNA is updated periodically and not as an ongoing process.

Discussion:

- Carol Carson noted that ongoing input from and exchange of views with accounting standards setters could be put on the SNA research agenda. It would be useful to consider at a future meeting how the continuing need for input from accounting perspective in the development of the statistical manuals should be achieved. Similarly, it would be important to consider how the statistical community could participate in the ongoing development of the accounting standards.
- The World Bank noted that it provides comments, including those drawn from its constituents, on a ongoing basis on the various EDs issued by the IPSASB.
- The possibility of having an observer from the national accounts community on the IPSASB was also raised. It was noted that the IMF, OECD and UN already participated in IPSASB meetings as observers with full rights of the floor and that IFAC had recently restructured the IPSASB to allow for membership by public members – that is, members other than those drawn from the accounting profession.
- Participants noted that while it was useful to have participation at the international level, one of the benefits of the WG1 and WG2 structures was that it brought to the table representation from national statistical offices and national treasuries and ministries of finance. The ability to discuss IPSASB, IPSAS and other

developments from a national perspective had been very useful and should not be lost in arrangements going forward.

Conclusion:

- How to proceed will be further discussed at the next TFHPSA. For instance, the IPSASB could participate in the SNA research agenda together with representation from individual countries.